

**REPORT OF THE AUDIT OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 14, 2003**



**EDWARD B. HATCHETT, JR.**  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable James D. Trimble, Menifee County Judge/Executive  
Honorable Rodney Coffey, Menifee County Sheriff  
Members of the Menifee County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Menifee County Sheriff's Settlement - 2002 Taxes as of May 14, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Menifee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 14, 2003**

**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
800 Envoy Circle  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MENIFEE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**May 14, 2003**

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Menifee County Sheriff as of May 14, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$902,980 for the districts for 2002 taxes, retaining commissions of \$35,563 to operate the Sheriff's office. The Sheriff distributed taxes of \$870,710 to the districts for 2002 Taxes. Net refunds of \$4,468 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$39,096 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Pay All Taxes Due Districts, Collect All Refunds Due Sheriff And Corrections Should Be Made In Programming The Penalties And Commissions In The SACS System.
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.





## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
SHERIFF’S SETTLEMENT – 2002 TAXES.....	3
NOTES TO FINANCIAL STATEMENTS .....	5
COMMENTS AND RECOMMENDATIONS .....	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13



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To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James D. Trimble, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the Menifee County Sheriff's Settlement - 2002 Taxes as of May 14, 2003. This tax settlement is the responsibility of the Menifee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable James D. Trimble, Menifee County Judge/Executive  
Honorable Rodney Coffey, Menifee County Sheriff  
Members of the Menifee County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$39,096 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Pay All Taxes Due Districts, Collect All Refunds Due Sheriff And Corrections Should Be Made In Programming The Penalties And Commissions In The SACS System.
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
July 28, 2003

MENIFEE COUNTY  
 RODNEY COFFEY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

May 14, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 111,823	\$ 219,377	\$ 368,298	\$ 138,496
Tangible Personal Property	7,423	14,195	23,376	27,232
Intangible Personal Property				381
Fire Protection	1,462			
Franchise Corporation	19,446	24,708	62,054	
Limestone, Sand, and Mineral Reserves	115	224	380	143
Bank Franchises	8,079			
Penalties	1,300	2,528	4,245	1,654
Adjusted to Sheriff's Receipt	<u>5</u>	<u>13</u>	<u>4</u>	<u>5</u>
Gross Chargeable to Sheriff	<u>\$ 149,653</u>	<u>\$ 261,045</u>	<u>\$ 458,357</u>	<u>\$ 167,911</u>
<u>Credits</u>				
Exonerations	\$ 2,209	\$ 4,315	\$ 7,274	\$ 2,735
Discounts	1,524	2,630	4,412	1,804
Delinquents:				
Real Estate	11,149	21,868	36,721	13,809
Tangible Personal Property	34	37	105	132
Uncollected Franchise	<u>3,896</u>	<u>6,816</u>	<u>12,516</u>	
Total Credits	<u>\$ 18,812</u>	<u>\$ 35,666</u>	<u>\$ 61,028</u>	<u>\$ 18,480</u>
Taxes Collected	\$ 130,841	\$ 225,379	\$ 397,329	\$ 149,431
Less: Commissions *	<u>5,849</u>	<u>7,182</u>	<u>15,894</u>	<u>6,638</u>
Taxes Due	\$ 124,992	\$ 218,197	\$ 381,435	\$ 142,793
Taxes Paid	125,572	217,976	383,522	143,640
Refunds (Current and Prior Year)	<u>157</u>	<u>305</u>	<u>518</u>	<u>195</u>
(Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (737)</u>	<u>\$ (84)</u>	<u>\$ (2,605)</u>	<u>\$ (1,042)</u>

The accompanying notes are an integral part of this financial statement.

MENIFEE COUNTY  
 RODNEY COFFEY, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2002 TAXES  
 May 14, 2003  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	421,919
4% on	\$	397,329
1% on	\$	73,732

\*\* Special Taxing Districts:

Library District	\$	(399)
Health District		(288)
Extension District		(274)
Watershed District		10
Soil Conservation		(69)
Fire District		936
		<hr/>
(Refunds Due Sheriff)	\$	<u>(84)</u>

MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENTS

May 14, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of December 10, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$39,096 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

MENIFEE COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 14, 2003  
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 10, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	476,965
Uncollateralized and uninsured	<u>39,096</u>
Total	<u><u>\$ 616,061</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2002 through April 28, 2003.

Note 4. Interest Income

The Menifee County Sheriff earned \$581 as interest income on 2002 taxes. As of July 28, 2003, the Sheriff owes \$245 in interest to the school district and \$336 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Menifee County Sheriff collected \$8,054 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of July 28, 2003, the Sheriff owes \$8,054n 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Menifee County Sheriff collected \$276 of advertising costs and \$460 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.



## COMMENTS AND RECOMMENDATIONS



MENIFEE COUNTY  
RODNEY COFFEY, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 14, 2003

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$39,096 And Enter Into A Written Agreement To Protect Deposits

On December 10, 2002, \$39,096 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*OK.*

2. The Sheriff Should Pay All Taxes Due Districts, Collect All Refunds Due Sheriff And Corrections Should Be Made In Programming The Penalties And Commissions In The SACS System

During the period of the Sheriff's 10% add-on-fee collections (February - April 2003), the Sheriff's add-on-fees were included as penalties on the monthly tax collection reports. Therefore, the add-on-fees were paid to all the taxing districts creating overpayments to the taxing districts. In addition, the SACS system withheld 4.25% as commission from the fire district instead of the 1% the Sheriff is allowed creating an amount owed the fire district. The Sheriff should correct these errors before the next tax year begins.

*Sheriff's Response:*

*Agree. This error is in the SACS program.*

MENIFEE COUNTY  
RODNEY COFFEY, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of May 14, 2003  
(Continued)

3. The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2002 tax collections, Sheriff Rodney Coffey earned interest of \$581 on his tax account. However, the Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis. As of July 28, 2003, Sheriff Rodney Coffey owes the Menifee County Board of Education \$245 and the fee account \$336. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff’s Response:*

*Will try to do in the future.*

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official’s control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be difficult. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Sheriff’s Response:*

*Will Attempt to institute Compensating Controls.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Menifee County Sheriff's Settlement - 2002 Taxes as of May 14, 2003, and have issued our report thereon dated July 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's Settlement - 2002 Taxes as of May 14, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$39,096 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Pay All Taxes Due Districts, Collect All Refunds Due Sheriff And Corrections Should Be Made In Programming The Penalties And Commissions In The SACS System
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -  
July 28, 2003



